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Frank S. Simone
Government Affairs Director

Suite 1000
1120 20th Street, N.W.
Washington, DC 20036
202 457-2321
FAX 202 457-2165
fsimone@lgamgw.attmail.com

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FEDERAL COMMUNICATIONS COMMISSION
OFFICE OF THE SECRETARY

August 13, 1997

Mr. **William F. Caton**, Acting Secretary
Federal Communications Commission
1919 M Street, N.W. -Room 222
Washington, D.C. 20554

Re: Ex Parte – CC Docket No. 95-115, Telephone Number Portability

Dear Mr. **Caton**:

Today, Harry Sugar and I met with James Schlichting, Neil Fried, **Lenworth** Smith and Lloyd Collier of the Common Carrier Bureau's Competitive Pricing Division. The purpose of the meeting was to discuss AT&T's position on the recovery of costs associated with the implementation of telephone number portability. The views expressed during the meeting are consistent with AT&T's written comments in the above-referenced proceeding and are summarized in the attached documents,

Two copies of this Notice are being submitted to the Secretary of the FCC in accordance with Section 1.1206(a)(1) of the Commission's Rules.

Sincerely,

A handwritten signature in black ink, appearing to read "F. Simone".

ATTACHMENT

cc: J. Schlichting
L. Collier
N. Fried
L. Smith

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CC Docket No. 95- 116, FNPRM
Telephone Number Portability Cost Recovery

Proposed Plan for Competitively Neutral Cost Allocation and Recovery

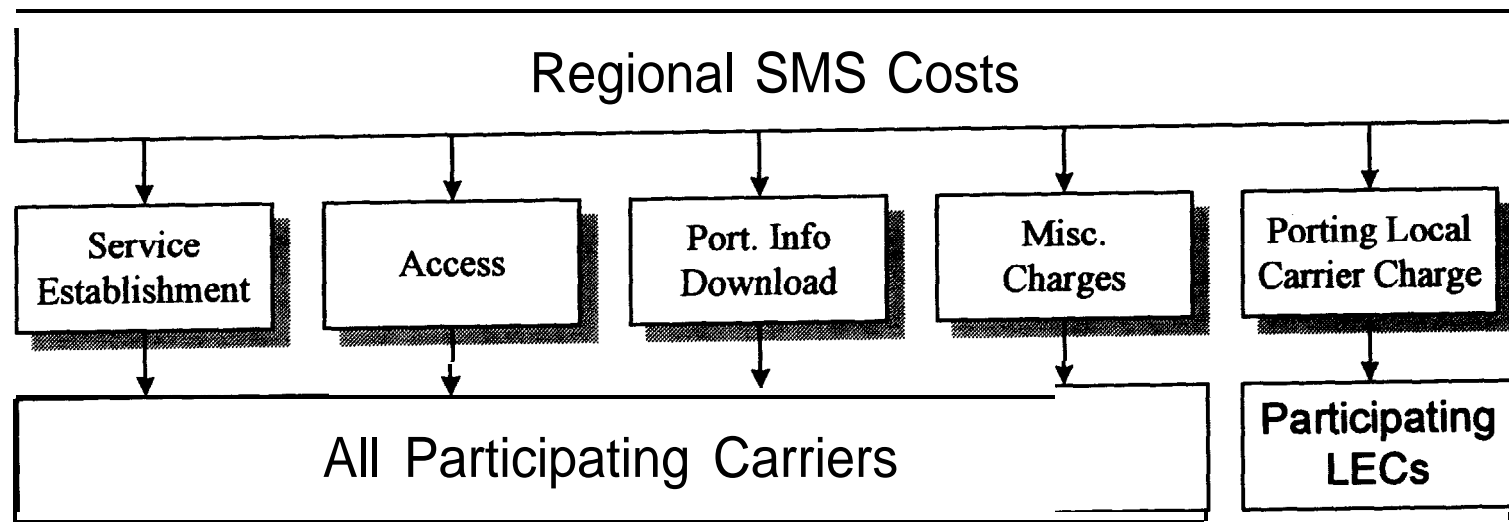
- Cost Allocation
 - Type 1 Costs: Each carrier is charged for its share of the regional SMS via specific cost elements in its contract with the regional SMS vendor.
 - Type 2 & Type 3 Costs: Each carrier bears its own costs.

- Cost Recovery
 - Type 1 and Type 2 Costs: The marketplace provides the flexibility for each carrier to recover its direct LNP costs.
 - Type 3 Costs: We agree with the Commission's tentative conclusion that these costs qualify as general network upgrades and are outside of the scope of this proceeding.
 - Number portability costs per line will be higher for CLECs than ILECs.



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Allocation of Type 1 Costs

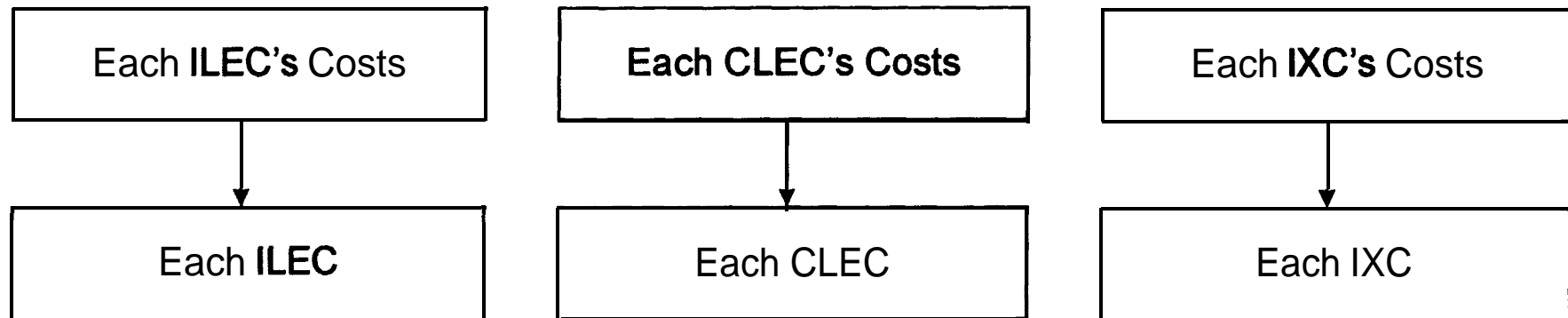


- All participating carriers pay direct costs of Type 1 costs for service establishment, access, portability information download, and misc. charges.
- All participating LECs pay remaining costs through Porting Local Carrier Charge based on their count of working telephone numbers.



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Allocation of Type 2 & 3 Costs



Each carrier bears its own costs to implement LNP
(Type 2 costs) and to upgrade its network (Type 3 costs).



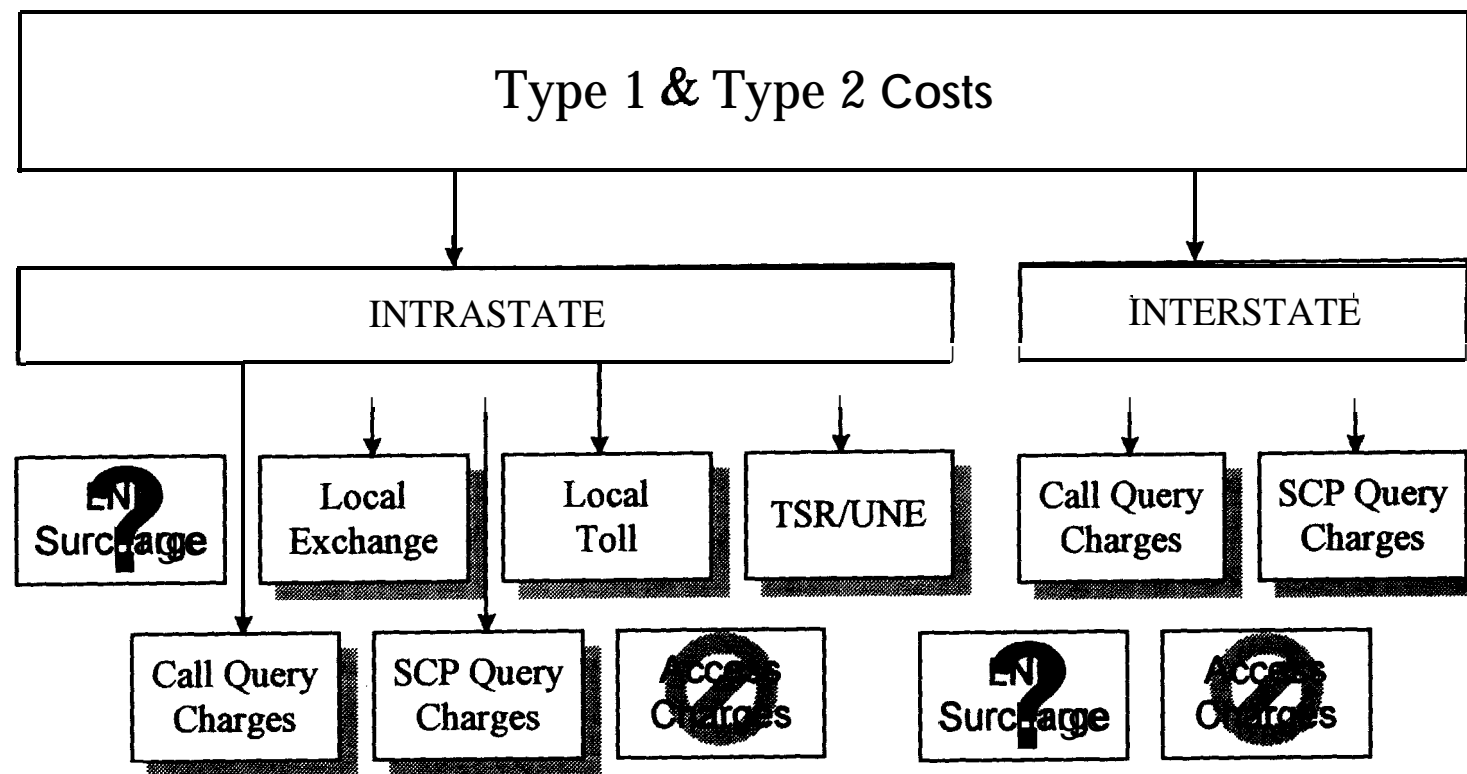
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LNP Costs In Perspective

	BAN	Ameritech	BellSouth	SBC	US West	Pacific	
Estimated Cost of LRN, \$M ¹	256.2	272.5	280.7	453.8	372.4	406.7	669.9
Switched Access Lines, M ²	20.14	17.32	19.05	21.49	14.45	15.17	16.43
Cost per Access Line	\$ 12.72	\$ 15.73	\$ 14.73	\$ 21.12	\$ 25.77	\$ 26.81	\$ 40.77
Cost per month (5 yrs.)	\$ 0.21	\$ 0.26	\$ 0.25	\$ 0.35	\$ 0.43	\$ 0.45	\$ 0.68
Basic Service Rev. per line per mo. ³							
- Residence ⁴	\$ 15.29	\$ 20.33	\$ 17.86	\$ 17.34	\$ 17.10	\$ 18.03	\$ 13.58
- Business	\$ 30.30	\$ 44.10	\$ 34.85	\$ 44.52	\$ 35.79	\$ 38.88	\$ 27.58
LNP Cost as a % of Basic Svc. Rev.							
- Residence	1.4%	1.3%	1.4%	2.0%	2.5%	2.5%	5.0%
- Business	0.7%	0.6%	0.7%	0.8%	1.2%	1.1%	2.5%
Gross Additions to Plant (1996), \$M ⁵	2815.5	2299.4	1996.8	3731.0	2326.2	2993.3	1877.4
LNP Cost (1 yr.) as a % of Gross Add.	0.09%	0.14%	0.15%	0.11%	0.22%	0.18%	0.43%
¹ Ex parte filings: BAN: 4/18/97, Ameritech: 4/29/97, BellSouth: 7/7/97, SBC: 10/21/96, US West 1/16/97, Pacific: 7/19/97							
² Annual Telco data for 1996, as reported in ARMIS							
³ Ibid, defined as basic area revenues and optional extended service revenues							
⁴ Derived from BPI special study of regional business/residence split							
⁵ ARMIS report no. 4302							



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Options for ILEC Cost Recovery from Subscribers & Carriers



- Costs can be recovered **from** subscribers of local exchange and local toll service.
- Costs can be recovered from resellers via **TSR/UNE wholesale/TELRIC** rates.
- Costs can be recovered **from** other carriers for whom ILEC provides LNP queries.



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LNP Surcharges Should Not Be Mandatory

- LNP Surcharges are not in the public interest
 - Guarantees that consumers will pay more
 - Perpetuates message that local competition doesn't work
 - Removes incentives to reduce costs and thereby lower prices to consumers
 - Permits ILECs to attribute Type 3 costs to LNP and include them in the surcharge
- If permitted, LNP Surcharges must be competitively neutral
 - LNP surcharges should not be mandatory and should recover only Type 1 & 2 costs
 - ILEC LNP costs charged to resellers must follow cost rules for TSR and UNEs
- Case in point
 - In October 1996, SBC stated its costs of LNP are **\$372M**. In their June 1997 tariff filing, SBC intends to recover **\$769M**, largely on a \$0.74 surcharge per line per month to “local customers, **lineside** access customers as well as the customer of a local service provider that resells services of the Telephone Company for the associated local or **lineside** access services (resale customers).”



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Charges to Other Carriers as Increased Access Charges Should Be Prohibited

- Two kinds of potential charges to other carriers
 - Incremental costs for LNP queries performed for other carriers should be recovered from those carriers.
 - LNP costs should not be recovered through non-LNP specific access charges to IXC's.
- Allowing recovery via increased access charges is not competitively neutral
 - IXC's are already paying their own LNP costs; they shouldn't have to pay ILEC costs too.
 - If ILECs bear only a portion of their LNP costs while IXC's bear both their own LNP costs plus a portion of ILEC LNP costs, then an appreciable, incremental cost advantage is provided for the ILEC over its current **intraLATA** toll competitors and its future **interLATA** toll competitors.
 - The Commission has recognized this by removing access charges from the allocation of NANP Administration costs in its 96-98 2nd Report & Order,
para. 343: *"Contributions based on gross revenues would not be competitively neutral . . . we require all telecommunications carriers to subtract from their gross telecommunications services revenues expenditures for all telecommunications services and facilities paid to other telecommunications carriers."*



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Jurisdiction Over Intrastate Access Charges

The Commission has jurisdiction over intrastate access charges to the extent they impact how carriers bear the costs of number portability.

- Section 25 1 (e)(2) of the Act expressly grants authority to the Commission to determine how carriers will bear the costs of number portability.
- The Commission therefore has authority to exclude number portability costs from intrastate access charges, because increasing such charges would shift the burden of ILEC LNP costs to **IXCs**.
- The Commission need not follow the 800 Portability model of exogenous cost treatment.
 - Concerns regarding competitive neutrality and opening up the local exchange market did not exist at that time.



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Proposed Cost Allocation and Recovery

*The Commission Should Determine the Allocation Plan for Shared Costs
and Set Cost Recovery **Guidelines** for the States.*

- Shared industry costs should be allocated to participants on a regional basis by rate elements and billed to participants by the regional SMS vendor.
- The Commission should prohibit interstate surcharges or increased intrastate or interstate access charges.
- The Commission should set guidelines for the states to address end user cost recovery.
 - A carrier's allocation of shared industry costs should be recovered the same as, and along with, Type 2 costs.
 - Type 3 costs should be recovered in the same manner as general network upgrades.
 - There should be no cost recovery through increased charges to other carriers for bottleneck services, e.g., access charges.
 - There should be no mandatory subscriber surcharges.
 - Cost recovery of Type 1 and Type 2 costs should be consistent with market developments and demands.

Approval of this plan assures that the costs of number portability will be borne by all telecommunications carriers in the simplest, most efficient, and competitively neutral manner.